

Response of the City of Cambridge to Information Requests of the Cambridge Electric Light Company in DTE 04-65

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-1 Please provide copies of: (1) any and all prefiled testimony or reports (including all associated exhibits and attachments) submitted by Mr. Chernick to state and federal regulatory authorities from 1999 to the present addressing streetlight pricing; and (2) any and all transcripts of Mr. Chernick's testimony at hearings (adjudicatory or non-adjudicatory) before state and federal regulatory authorities from 1999 to the present regarding streetlight pricing.

Mr. Chernick Replies: Mr. Chernick's previous streetlighting-pricing testimony, listed in his testimony at p. 2, all involve NStar affiliates. NStar has copies of those testimonies, as well as the transcripts from the hearings. Attached find copies of Mr. Chernick's testimony in MDPU 98-76 (Haverhill's pricing dispute with Massachusetts Electric), NYPSC Case No. 04-E-0572, MDPU 85-121 and MDPU 92-92, which include other streetlighting issues. Mr. Chernick has not been on the stand in the NYPSC case, which appears to have been settled.

Response of the City of Cambridge to Information Requests of the Cambridge Electric Light Company in DTE 04-65

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-2 Please provide copies of: (1) any and all prefiled testimony or reports (including all associated exhibits and attachments) submitted by Mr. Chernick to state and federal regulatory authorities from 1999 to the present addressing the depreciation of utility assets, depreciation reserves and accumulated depreciation; and (2) any and all transcripts of Mr. Chernick's testimony at hearings (adjudicatory or non-adjudicatory) before state and federal regulatory authorities from 1999 to the present regarding such topics.

Mr. Chernick Replies: Other than the streetlighting cases, Mr. Chernick has referred to depreciation in a number of other proceedings. For example, accumulated depreciation is critical in determining stranded costs, and depreciation rates affect estimates of levelized costs, rate shock from new investments, the cost-effectiveness of resources, and so on. Mr. Chernick does not have an index of his prior testimony at this level of detail. The only non-streetlighting proceeding in which he recalls depreciation rates being a major issue was the attached testimony on Con Edison steam rates in NYPSC 99-S-1621. Mr. Chernick's prior testimony takes up approximately 20 linear feet of drawer space, and it would be burdensome for him to search all that testimony for references to depreciation rates. Any specific pieces of testimony that the Company would like to look at will be made available by arrangement. Mr. Chernick does not generally retain transcripts of proceedings.

**Response of the City of Cambridge to Information Requests of the
Cambridge Electric Light Company in DTE 04-65**

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-3 Please provide copies of any and all regulatory decisions addressing the issues covered by Mr. Chernick in testimony provided in response to Information Requests NSTAR-CITY-1-1 and NSTAR-CITY-1-2. Identify the decision-making authority, docket number, year of the decision, and any official citation to the decision.

Mr. Chernick Replies: See the responses to NStar-City 1-1 and 1-2. The orders in those cases are available to the Company. There is not yet any decision in NYPSC Case No. 04-E-0572, which appears to be close to settlement.

**Response of the City of Cambridge to Information Requests of the
Cambridge Electric Light Company in DTE 04-65**

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-4 Please identify all documents relied upon by Mr. Chernick in preparing this testimony. To the extent not already provided, please provide a copy of each identified document.

Mr. Chernick Replies: Other than materials provided by CELC, attachments to Paul Chernick's testimony (including DTE-accepted calculations of streetlight purchase price) and exhibits provided in the City's petition, Mr. Chernick relied on in his testimony in DTE 98-89 and 01-25 and Department Orders in DTE 98-89, DTE 01-25, and DTE 02-11.

**Response of the City of Cambridge to Information Requests of the
Cambridge Electric Light Company in DTE 04-65**

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-5 Please identify the date that Mr. Chernick was first engaged by the City on this matter and how many hours Mr. Chernick has devoted to this engagement to date. Please also provide a copy of any engagement letter, contract or other document that sets forth the terms under which Mr. Chernick is participating in this matter.

Mr. Chernick Replies: The City retained Mr. Chernick in May 2004. He has billed 70.5 hours through November 30, 2004. Attached find a copy of the contract between the City of Cambridge and Resource Insight.

**Response of the City of Cambridge to Information Requests of the
Cambridge Electric Light Company in DTE 04-65**

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-6 Please provide a copy of any and all reports, correspondence, memoranda, analyses, studies, emails and other documents prepared by Mr. Chernick (or his agents) relating to: (a) the subject matter of this proceeding; (b) the topic of streetlighting pricing; or (c) the depreciation of utility assets.

Mr. Chernick Replies: Aside from communications with city counsel (which are protected by attorney client privilege), Mr. Chernick did not prepare any analyses in the proceeding beyond those in his testimony. See also the responses to NStar-City 1-1 and 1-2.

**Response of the City of Cambridge to Information Requests of the
Cambridge Electric Light Company in DTE 04-65**

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-7 Please provide a copy of any and all reports, studies, correspondence, memoranda, analyses, emails and other documents received by Mr. Chernick (or his agents) from the City (or its agents) relating to: (a) the subject matter of this proceeding; (b) the topic of streetlighting pricing; or (c) the depreciation of utility assets. All documents provided in response to this request should clearly indicate the source of the data and the preparer's name.

Mr. Chernick Replies: Mr. Chernick cannot recall any materials he received, aside from emails from city counsel (which are protected by attorney client privilege), Company documents including spreadsheets and e-mails provided as exhibits to Petition, CELC streetlight inventories, and NStar's streetlighting calculation for Brookline. These documents are already in the possession of NStar, since the Company produced and provided them.

Response of the City of Cambridge to Information Requests of the Cambridge Electric Light Company in DTE 04-65

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-8 Please identify on a paragraph-by-paragraph basis which provisions of the City's Amended Petition (dated October 4, 2004) Mr. Chernick agrees with and adopts as his testimony in this proceeding.

Mr. Chernick Replies: Mr. Chernick is sponsoring his testimony, not the petition, which is a legal document prepared by the City's counsel. Mr. Chernick has little or no personal information regarding paragraphs 1–5 and 11–12. Mr. Chernick agrees with Paragraphs 7–10, 13–18, and 21. Paragraph 19 is consistent with Mr. Chernick's understanding of the parties' positions. Mr. Chernick agrees with the characterizations of Paragraphs 20 (a), (b) and (d) in the context of the computation of the purchase price in this proceeding. Paragraph 20 (e) paraphrases a statement by the Company; Mr. Chernick cannot confirm the truth of the Company's statement until the Company documents its computation of the purchase price. Paragraphs 6 and 20(c) were correct when the petition was drafted; through December 2003, CELC kept accumulated depreciation below net plant for every account and vintage, even for plant 60 years old. In the next nine months, CELC decided that accumulated depreciation could exceed gross plant for five years representing thirteen account lines.

**Response of the City of Cambridge to Information Requests of the
Cambridge Electric Light Company in DTE 04-65**

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-9 Please refer to Mr. Chernick's direct testimony, p. 3, at lines 6-10. Please describe your understanding of the Company's accounting practices and explain whether and how they differ from traditional utility accounting practices.

Mr. Chernick Replies: Mr. Chernick is not aware of any deviations of Company accounting from normal practice, but the Company has not documented the derivation of the value it claims as the purchase price. Hence, Mr. Chernick does not know how the Company has determined annual depreciation charges, whether the Company has reassigned accumulated streetlighting depreciation to other accounts, or any other details of the Company's derivation of its current streetlighting balance.

**Response of the City of Cambridge to Information Requests of the
Cambridge Electric Light Company in DTE 04-65**

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-10 Please refer to Mr. Chernick's direct testimony, p. 3, at lines 15-17, besides depreciation expenses and retirements, are there any other items that would affect accumulated depreciation? If so, please list each item and explain how and under what circumstances they would affect accumulated depreciation.

Mr. Chernick Replies: In general utility accounting, accumulated depreciation could enter an account in connection with transfers and perhaps with adjustments, as well. Net salvage is also added to accumulated depreciation. If net salvage is positive, it would increase accumulated depreciation. If it is negative, net salvage would decrease accumulated depreciation.

**Response of the City of Cambridge to Information Requests of the
Cambridge Electric Light Company in DTE 04-65**

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

*NSTAR-CITY-1-11 Please refer to Mr. Chernick's direct testimony, p. 6, at lines 14-17.
Please explain why Mr. Chernick believes that the Company did not
record depreciation for that period using Department-approved
depreciation rates. Please provide a copy of all documents, reports,
studies or analyses that support such belief.*

Mr. Chernick Replies: Mr. Chernick did not make any statements regarding the Company's "recording" of depreciation for any purposes other than this proceeding. The lines cited in the question are further explained at page 7 of Mr. Chernick's testimony.

Response of the City of Cambridge to Information Requests of the Cambridge Electric Light Company in DTE 04-65

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-12 Please refer to Mr. Chernick's direct testimony, p. 11, at lines 2-17 and the description of the four bulleted steps used to develop the City's calculation set forth in Exhibit CAM-5. Please explain in full the state or federal regulations, policies, procedures and practices that dictate the methodology for utilities in calculating accumulated depreciation and how such regulations, policies, procedures and practices should be considered in the pricing of streetlighting equipment. In addition, please describe any other factors that may affect the depreciation of utility assets, but were not included in your analysis. Please explain the reason such factors were not included in your analysis.

Mr. Chernick Replies: The question improperly appears to request that the City perform extensive legal research for the Company. Mr. Chernick is not aware of any federal regulations governing the pricing of streetlighting equipment. Massachusetts requires that streetlighting plant be sold at "its unamortized investment, net of any salvage value obtained by the electric company under the circumstances, in the lighting equipment owned by the electric company in the municipality" (G.L. c. 164, §34A). In the current circumstances, the Company will not obtain any salvage value (since the plant is being transferred to the City, not removed), so the Massachusetts standard is "unamortized investment." This standard is further defined in the Department's decisions in Dockets No. DTE 98-89 and DTE 01-25. See also the response to NStar-City 1-17.

**Response of the City of Cambridge to Information Requests of the
Cambridge Electric Light Company in DTE 04-65**

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

*NSTAR-CITY-1-13 Please provide a working, electronic copy of Exhibit CAM-5 in Excel
format.*

Mr. Chernick Replies: The file Exhibits CAM 2, CAM 3, CAM 5.xls was provided as an attachment to email on Monday, October 04, 2004 at 1:28 PM by John Shortsleeve. That email was addressed to jeffrey_Stevens@nstaronline.com and drosen@kwplaw.com, as well as several recipients at the Department.

Response of the City of Cambridge to Information Requests of the Cambridge Electric Light Company in DTE 04-65

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-14 Please describe whether Mr. Chernick believes that the actual cost of removal and salvage should be included in the determination of unamortized investment in streetlighting equipment. Please provide a copy of any regulations, accounting definitions, regulatory orders, textbook treatises or other sources that support Mr. Chernick's belief.

Mr. Chernick Replies: Yes. For most streetlighting equipment, new equipment is typically installed at the same time that old equipment is removed. The cost of removal of the old equipment can be difficult to distinguish from the cost of installation for the new equipment. The allocation of costs (or savings) between net salvage and the installation cost of replacement equipment appears to be largely a matter of choice by the utility. Streetlighting net salvage is often reported as zero; this appears to be NStar's practice at Boston Edison and CommElectric. See also the response to NStar-City-1-17.

Response of the City of Cambridge to Information Requests of the Cambridge Electric Light Company in DTE 04-65

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-15 Please refer to Exhibit CAM-5. Please explain how and whether the City's calculation of net streetlight plant accounts for the actual cost of removal and salvage for streetlighting equipment. Please explain whether Mr. Chernick believes that, to the extent that utility assets have a negative net salvage value, such value should be included in the determination of utility depreciation rates.

Mr. Chernick Replies:

- a. The Company has not provided any data on removal and salvage costs, so they are not reflected in Exhibit CAM-5. As noted above, costs that could be characterized as removal costs may alternatively be characterized as part of the cost of installing replacements, allowing net salvage to be zero. See also the responses to NStar-City-1-10 and 14.
- b. No dispute regarding depreciation rates has been identified in this proceeding; the City has accepted the depreciation rates the Company has provided. Mr. Chernick agrees that net salvage value should be reflected in depreciation rates.

Response of the City of Cambridge to Information Requests of the Cambridge Electric Light Company in DTE 04-65

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-16 With respect to Mr. Chernick's direct testimony, p. 3, at lines 6-18, please explain whether Mr. Chernick believes there is a distinction between a distribution company's: (a) unamortized investment in streetlight equipment and (b) the net book value of such streetlight equipment. If Mr. Chernick believes there is a distinction between (a) and (b), please identify with specificity what those differences are and how Mr. Chernick would calculate both values. In addition, please provide a copy of any and all documents relied upon by Mr. Chernick in support of his conclusion.

Mr. Chernick Replies: Mr. Chernick believes that there could be a distinction between (a) "unamortized investment" and (b) "net book value." This appears to be the case for Boston Edison, which may have computed net book for some purposes using a lower depreciation rate than the Department found appropriate for unamortized investment, for the purpose of implementing the streetlight-purchase statute.

The use of a composite distribution plant depreciation rate is appropriate where the company is not required to assign a value to the individual components of the distribution plant. Here the Act requires valuation of streetlighting equipment,...a valuation using the composite distribution plant depreciation is not appropriate. The Company must value streetlighting equipment based on a depreciation rate that recognizes the useful life of the streetlighting equipment, not a composite distribution plant depreciation rate.
(DTE 98-89 at 4)

The Uniform System of Accounts also allows utilities to account for accumulated streetlighting depreciation as part of "composite distribution plant depreciation" as follows:

Response of the City of Cambridge to Information Requests of the Cambridge Electric Light Company in DTE 04-65

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

For general ledger and balance sheet purposes, this account [accumulated depreciation] shall be regarded and treated as a single composite provision for depreciation. For purposes of analysis, however, each utility shall maintain subsidiary records in which this account is segregated according to the following functional classification for electric plant: (1) Steam production, (2) Nuclear production, (3) Hydraulic production, (4) Other production, (5) Transmission, (6) Distribution, and (7) General. (Code of Federal Regulations, title 18, Chapter 1, Part 101 (C) of Uniform System of Accounts prescribed for Public Utilities, Balance Sheet Accounts, 108 Accumulated Provision for Depreciation of Electric Utility Plant)

The DTE has found a single composite distribution rate “not appropriate” for computing the streetlight purchase price. A single composite account for distribution accumulated depreciation, while acceptable in determining net book value, appears to be inappropriate for determining unamortized investment for streetlighting purchases.

Similarly, the Department might allow a utility to transfer some accumulated streetlighting depreciation to reduce an accumulated depreciation deficiency in some other account, which would result in (b) being less than (a). Or a utility may at some point have allocated accumulated depreciation among accounts and sub-accounts in a manner that resulted in net book being different from unamortized plant. Mr. Chernick has not attempted to develop a comprehensive list of all the reasons that (a) and (b) might differ.

**Response of the City of Cambridge to Information Requests of the
Cambridge Electric Light Company in DTE 04-65**

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-17 Referring to the City's Petition, paragraph 20, please provide specific page citations to the Department's orders, "statute or the rulings" in D.T.E. 98-89 and D.T.E. 01-25 that dictate the treatment of the items discussed in paragraph 20, subsections (a) through (e)

The DTE has enunciated principles for computing streetlight purchase prices at pages 3–5 of DTE 98-89 and pages 5–7 of DTE 01-25. Those principles are implemented in the streetlight purchase-price calculations prepared in accordance these rulings, as illustrated in Exhibit PLC –2 for Lexington, Waltham, and Harwich and endorsed in DTE 02-11. The method attributed to the Company in items in paragraphs (a) through (e) of paragraph 20 of the petition is inconsistent with the DTE's orders and with the implementation of those orders in the purchase-price computations in Exhibit PLC-2.

**Response of the City of Cambridge to Information Requests of the
Cambridge Electric Light Company in DTE 04-65**

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-18 Referring to the City's Petition, paragraph 17, and Exhibit CAM-5, please state if you believe that the Company's net book value of streetlights should be \$1,123,706. Please also specify the valuation date. Please provide a copy of all calculations, data and analysis supporting Mr. Chernick's determination of the streetlights' net book value.

Mr. Chernick Replies: Mr. Chernick does not know of any reason for the Company's net book value for streetlights as of December 2003 to be different from the \$1,123,706 that he computed as the purchase price. The Company's net book value for streetlights might be different from \$1,123,706, either due to factors Mr. Chernick was not able to take into account (e.g., accumulated depreciation on transfers and adjustments, as noted at note 6 of his testimony) or due to factors that affect net book value but not the purchase price (see response to NStar-City 1-16).

Response of the City of Cambridge to Information Requests of the Cambridge Electric Light Company in DTE 04-65

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-19 Please explain what impact early or late retirements (retirements before or after a units expected service life) of streetlighting equipment should have on the book value of streetlighting equipment. Please provide a copy of any regulatory orders or directives, ratemaking treatises, accounting rules, standards or regulations in support of thereof.

Mr. Chernick Replies: Early retirement of an investment will result in more dollars being removed from accumulated depreciation than were accrued due to the investment. Later retirement of an investment will result in fewer dollars being removed from accumulated depreciation than were accrued due to the investment. The effects of early and late retirements are included in Exhibit CAM-5. In terms of rules and standards, as Ms. Vaughan says in her affidavit,

At the time of retirement of depreciable electric plant, this account shall be charged with the book cost of the property retired and the cost of removal and credited the salvage value. (Code of Federal Regulations, Title 18, Chapter 1, Part 101 of Uniform System of Accounts prescribed for Public Utilities, Balance Sheet Accounts, 108 Accumulated Provision for Depreciation of Electric Utility Plant)

**Response of the City of Cambridge to Information Requests of the
Cambridge Electric Light Company in DTE 04-65**

Information Requests Relating to the Prefiled Testimony of Mr. Paul Chernick

NSTAR-CITY-1-20 Please explain how the calculation provided by the City in Exhibit CAM-5 incorporates the effect of early or late retirements of streetlighting equipment.

Mr. Chernick Replies: The City's method accounts fully for early and late retirements, by computing depreciation on all plant in service, for as long as that plant is in service. For example, if 1942 additions and 2001 retirement were each \$1,000 greater than in Exhibit CAM-5, representing very late retirement, net plant at year-end 2003 would fall to \$1,121,144, \$2,562 less than in Exhibit CAM-5. If the \$1,000 were added in 1942 and retired in 1950, considerably early, net plant at year-end 2003 would rise to \$1,124,189, \$483 more than in Exhibit CAM-5.